

2✓ U.S. UNITED STATES DEPARTMENT OF AGRICULTURE  
Rural Electrification Administration

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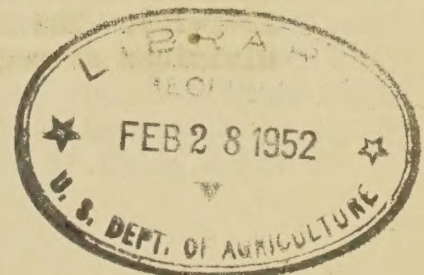
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Telephone Loan Procedure  
For Control of Loan and Equity Funds

This procedure outlines the functions and responsibilities of the various Divisions of REA in connection with the control of telephone loan and equity funds. It supplements Section III-10 "Advance of Loan Funds" of the LOAN PROCEDURE FOR TELEPHONE LOAN APPLICATIONS.

The Accounting and Auditing Division is responsible for the internal controls over telephone loan and equity funds. These controls, among other things, serve three purposes. They are:

1. Provide assurance that the total of the obligations against loan and equity funds based on memoranda of authorization from the various Divisions, contracts approved by or for the Administrator, and other similar documents, shall at no time exceed the currently available loan and equity funds unless prior approval of such excess obligation is obtained from the Administrator.
2. Provide budgetary control of loan and equity funds within the framework of the loan budgets plus any subsequent changes or transfers.
3. Provide assurance that advances of loan funds and approvals for use of equity funds shall be made only for purposes which have been approved by the responsible Division in REA or the Office of the Solicitor.

This procedure relates primarily to item 1. Procedures relating to items 2 and 3 are found in the LOAN PROCEDURE FOR TELEPHONE LOAN APPLICATIONS.





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For Control of Loan and Equity Funds

1. Records of Loan and Equity Funds

The loan docket establishes a master budget for the project, and subsidiary budgets for various sections of the project if the project is to be handled by sections. These are the basic documents for control of loan and equity funds. Copies of the budgets are made available to the Accounting and Auditing Division as well as other Divisions at the time the loan is approved. They indicate the total loan and equity funds to be made available for construction and allied purposes for the project or sections thereof and the amounts estimated to be required for each purpose. However, in certain instances (notably loans to cooperative organizations) only part of the equity funds for the project or a section may be available when construction starts. In those cases, the remaining equity funds will be made available from time to time as construction proceeds.

To provide adequate control of loan and equity funds, the Accounting and Auditing Division establishes subsidiary records of the amounts of these funds which are available at any time for the project. The initial entries in these records are obtained from the "Release of Telephone Funds" memorandum prepared by the Applications and Loans Division and forwarded to the Accounting and Auditing Division and the amounts of prior expenditures of equity funds, if any, for which the Applications and Loans Division has obtained approval of the responsible Division in REA or the Office of the Solicitor.

2. Reports of Equity From Borrowers

The record of loan and available equity funds is maintained on a current basis by the Accounting and Auditing Division. In cases where the equity funds initially provided by the borrower are less than those required by the loan the borrower reports periodically the additional equity deposited in the special construction account. This information is submitted on each expenditure statement (Form FI-T-1B). The Accounting and Auditing Division informs the other Divisions as required of the additional equity collections.



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In those cases where the borrower is constructing its project by sections a separate bank account is required for equity applying to or collected from subscribers in sections other than the sections under construction. Equity collections from subscribers in the sections under construction will be deposited in the REA Construction Fund Trustee Account and reported to the Accounting and Auditing Division as explained above.

3. Records of Obligations Against Loan and Equity Funds

The Accounting and Auditing Division maintains current records of the total amounts obligated against the available loan and equity funds and the balances available for obligation. These records of obligation are based on approved contracts, memoranda and other authorization for advances or use of these funds.

4. Approvals of Contracts or Other Authorizations for Use of Loan and Equity Funds

Before contracts or other authorizations involving use of loan or equity funds are submitted for approval by or are approved for the Administrator, the Division responsible for processing them ascertains that sufficient unobligated funds are available. To do this, the processing Division submits to the Accounting and Auditing Division duplicate copies of the document used in authorizing the use of the funds. This document may be the forwarding memorandum accompanying a construction, material, or other contract; an authorization to purchase vehicles, work, office, and similar equipment; or a special memorandum of authorization. The Accounting and Auditing Division, after ascertaining from its record of loan and available equity funds that unobligated funds are available, stamps and initials both copies of the document, thus indicating this fact. One copy of the document is returned to the initiating Division. The other is retained for use by the Accounting and Auditing Division. No authorization for use of loan or equity funds is approved or released until this approval by the Accounting and Auditing Division is obtained. It is to be noted that in certain cases, such as those in which the borrower's engineer is selected and approved in the pre-loan period, contracts may be approved by the Administrator on a contingent basis prior to the availability of funds. This approval is given on the basis that funds are not immediately available and may become available at a later date. In these cases the Engineering Division by submitting a copy of the forwarding memorandum or other document of authorization to the Accounting and Auditing Division notifies that Division of the amounts of funds which will become obligated by these authorizations at such time as the advance of loan funds has been approved. A similar situation is involved in those cases where the borrower expends equity funds prior to approval of the loan for purposes which are later approved by REA. In these cases the Division approving the expenditures will make available to the Accounting and Auditing Division a breakdown of these approved expenditures by applicable budget items.



Since contracts or other obligations of loan or equity funds may be revised or disapproved subsequent to the time that availability of funds has been checked as indicated above, the final obligation of these funds is not made by the Accounting and Auditing Division until after approval by or for the Administrator. An interim record is maintained of the tentative obligations of funds. This record serves the purpose of preventing over-obligation of available loan and equity funds by providing a record of amounts involved in contracts being processed which are considered in addition to those involved in contracts already approved in determining that unobligated funds are available for any subsequent documents. In order that the Accounting and Auditing Division may be informed of the approval of any such documents, the approved office copies are routed through that Division before being returned to the responsible Division for filing.